BERENBERG
Markets

MONITOR

18 February 2019

## Current market commentary

While German equities stagnated in February, US equities continued their recovery rally and crossed the 200-day moving average line. REITs and emerging market assets also gained, benefiting from the more cautious stance of the US Federal Reserve and the corresponding lower bond yields. 10-year bund yields fell temporarily to below 0.08%. Falling inflation expectations and weak economic data put pressure on yields. Equities thus remain more attractive than government bonds. The dividend yield on global equities, for example, has risen above the level of 10-year US Treasuries. Back in 2018, the opposite was mainly the case. This, together with the fact that many investors have missed the recovery rally to date, suggests that, despite ongoing political risks, equities should not be underweighted after the strong performance since the beginning of the year - although we have recently lowered the equity ratio towards neutral.

The bi-weekly ***Monitor*** gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

## Short-term outlook

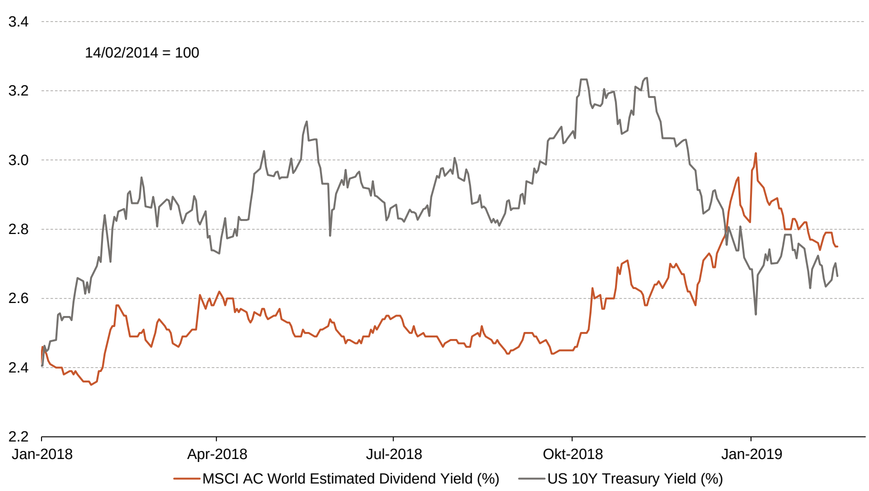
*Volatility should rise*

Following the strong price rallies on the international capital markets, the probability of higher volatility has increased. The economic slowdown and ongoing political risks could form the breeding ground.

*The next two weeks, the focus is on economic data and political events*

As for this week, a number of economic data releases will be in the spotlight. In particular, tomorrow's ZEW Index, the Manufacturing Purchasing Managers' Indices for Germany, France and the Euro-Zone on Thursday, and the German Ifo Business Climate Index on Friday are expected to be very interesting. In addition, the publication of the FOMC minutes on Wednesday 30 January could provide further indications of future US monetary policy. In the next days, the markets are likely to focus more on political risks again, such as the trade negotiations between the US and China, the possible threat of American import duties on cars, the meeting between US President Trump and Kim Jong Un in Vietnam and a new vote on the Brexit deal in the British Parliament.

## Global dividend yields are more attractive than Treasury yields




- Over the course of 2018, US 10-year government bond yields largely traded above global dividends. Since autumn 2018, however, dividend yields have risen sharply due to falling stock market prices, while yields on safe haven bonds have fallen sharply due to higher demand
- This interaction and a cautious Fed have led to a recent increase in the attractiveness of stocks.

Source: Bloomberg, Time period: 01/01/2018 - 15/02/2019

## Multi Asset

| | 4W (18/01/19 - 15/02/19) | YTD (31/12/18 - 15/02/19) | 15/02/18 15/02/19 | 15/02/17 15/02/18 | 15/02/16 15/02/17 | 15/02/15 15/02/16 | 14/02/14 15/02/15 |
|---|---|---|---|---|---|---|---|
| Brent | 6.6 | 24.6 | 18.9 | -2.9 | 51.3 | -53.8 | -35.1 |
| REITs | 6.6 | 13.2 | 22.8 | -16.4 | 16.5 | -11.0 | 42.3 |
| MSCI World | 4.2 | 11.6 | 9.4 | 0.5 | 31.2 | -10.5 | 30.0 |
| Global Convertibles | 3.7 | 8.9 | 11.4 | -2.9 | 25.8 | -8.6 | 21.7 |
| Gold | 3.7 | 4.6 | 8.1 | -7.0 | 7.3 | 0.5 | 12.0 |
| MSCI Frontier Markets | 3.5 | 8.2 | -4.5 | 7.1 | 23.2 | -14.3 | 20.6 |
| Industrial Metals | 3.1 | 8.5 | -5.8 | 0.2 | 45.6 | -25.0 | 10.1 |
| Global Coporates | 2.1 | 3.4 | 9.7 | -8.5 | 8.7 | -0.1 | 21.3 |
| MSCI Emerging Markets | 2.1 | 8.5 | -2.8 | 10.8 | 39.8 | -22.9 | 26.8 |
| Global Treasuries | 1.0 | 1.8 | 8.3 | -7.1 | 2.9 | 4.0 | 15.5 |
| USDEUR | 0.6 | 1.5 | 10.7 | -15.2 | 5.2 | 2.1 | 20.2 |
| Eonia | 0.0 | 0.0 | -0.4 | -0.4 | -0.3 | -0.1 | 0.1 |

Column groups: 4-week & YTD; 12-month periods over that last 5 years

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- REITs and Brent oil, in particular, have grown strongly over the last four weeks. REITs benefited from continued very low interest rates and the renewed "hunt for yields". The oil price has climbed by more than 20% since the beginning of the year, supported by hope for a settlement in the trade conflict and the recent positive Chinese trade balance data.
- Cash remains the worst asset class to date in 2019.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/02/2014 – 15/02/2019

## Equities

| | 4W (18/01/19 - 15/02/19) | YTD (31/12/18 - 15/02/19) | 15/02/18 15/02/19 | 15/02/17 15/02/18 | 15/02/16 15/02/17 | 15/02/15 15/02/16 | 14/02/14 15/02/15 |
|---|---|---|---|---|---|---|---|
| Russell 2000 | 6.7 | 18.4 | 14.5 | -5.9 | 55.8 | -18.2 | 29.5 |
| S&P 500 | 4.9 | 12.8 | 14.7 | 0.6 | 36.8 | -7.9 | 39.7 |
| Stoxx Europe 50 | 4.4 | 9.1 | 2.7 | 1.8 | 16.9 | -14.5 | 15.7 |
| MSCI UK | 4.1 | 7.9 | 4.1 | 3.1 | 30.3 | -12.6 | 6.6 |
| Euro Stoxx 50 | 3.6 | 8.3 | -1.7 | 4.5 | 20.8 | -15.8 | 13.6 |
| Stoxx Europe Defensives | 2.9 | 7.4 | 13.2 | -1.7 | 9.0 | -10.5 | 20.4 |
| MSCI EM Asia | 2.9 | 8.0 | -2.9 | 13.4 | 35.3 | -19.6 | 35.6 |
| Stoxx Europe Cyclicals | 2.8 | 10.6 | -7.0 | 8.5 | 30.7 | -18.5 | 10.5 |
| Stoxx Europe Small 200 | 2.6 | 9.9 | -2.2 | 10.4 | 21.2 | -9.8 | 12.6 |
| Topix | 1.4 | 7.0 | 0.1 | 2.7 | 30.0 | -3.8 | 28.6 |
| DAX | 0.8 | 7.0 | -8.5 | 4.7 | 28.1 | -16.0 | 13.5 |
| MSCI EM Eastern Europe | -0.2 | 8.7 | 4.8 | 4.2 | 59.2 | -19.9 | -9.6 |

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; Topix: Topix TR (japanese Equity);
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; Russell 2000: Russell 2000 TR (US Small Caps); Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- While share prices in the US, UK and Asian emerging markets rose markedly over the last four weeks, they stagnated in Germany and Eastern Europe.
- Contrary to expectations, the German economy did not grow in the fourth quarter and thus barely avoided a technical recession.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/02/2014 – 15/02/2019

## Fixed Income

| | 4W (18/01/19 - 15/02/19) | YTD (31/12/18 - 15/02/19) | 15/02/18 15/02/19 | 15/02/17 15/02/18 | 15/02/16 15/02/17 | 15/02/15 15/02/16 | 14/02/14 15/02/15 |
|---|---|---|---|---|---|---|---|
| Gilts | 2.8 | 4.3 | 7.4 | -4.5 | -5.4 | 0.0 | 26.0 |
| USD Corporates | 2.7 | 4.2 | 13.8 | -12.4 | 12.7 | -0.4 | 27.6 |
| USD High Yield | 2.3 | 7.4 | 16.4 | -12.3 | 29.6 | -9.2 | 23.4 |
| EM Hard Currency Bonds | 2.0 | 4.1 | 13.1 | -10.6 | 18.2 | 2.4 | 20.8 |
| Treasuries | 1.8 | 1.9 | 14.8 | -15.2 | 4.1 | 4.6 | 25.5 |
| EUR Non-Financials | 1.6 | 1.8 | 1.4 | 1.4 | 4.5 | -2.2 | 8.5 |
| EM Local Currency Bonds | 1.4 | 3.9 | 7.0 | -5.4 | 16.3 | -7.9 | 19.0 |
| EUR Financials | 1.4 | 1.6 | 0.7 | 2.5 | 4.4 | -1.2 | 7.1 |
| EUR High Yield | 1.0 | 2.6 | -0.2 | 3.1 | 12.0 | -4.1 | 4.4 |
| Bunds | 0.9 | 1.0 | 5.0 | -1.8 | -0.4 | 1.4 | 10.8 |
| EUR Inflation Linkers | 0.0 | 0.2 | -0.7 | 2.9 | 1.9 | -1.8 | 7.3 |
| BTPs | -0.5 | -0.2 | -1.8 | 3.8 | -1.9 | 2.2 | 15.0 |

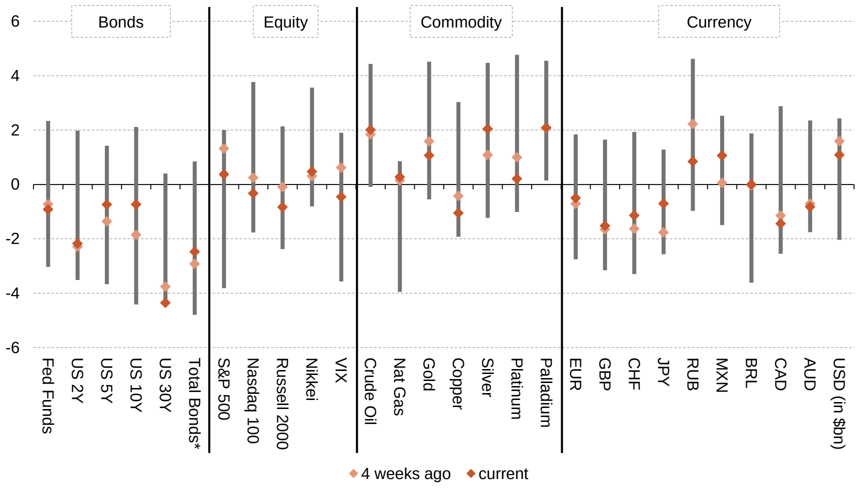
Column groups: 4-week & YTD; 12-month periods over that last 5 years

Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markit iBoxx EUR Liquid HY TR; USD Corporates: iBoxx USD Corporates TR;
USD High Yield: IBOXX USD Liquid HY TR; EM Hard Currency: Barcl. EM Hard Currency Agg Govt Related TR; EM Local Currency: Barcl. EM Local Currency Govt TR.

- USD bonds in particular have continued to gain recently. USD high-yield bonds recovered significantly after the large spread widening in December. Since the beginning of the year, they have gained 7.4% in euro terms.
- Italian bonds, on the other hand, do not benefit from generally lower yields. Weak economic data and political risks continue to weigh on the economy.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/02/2014 – 15/02/2019

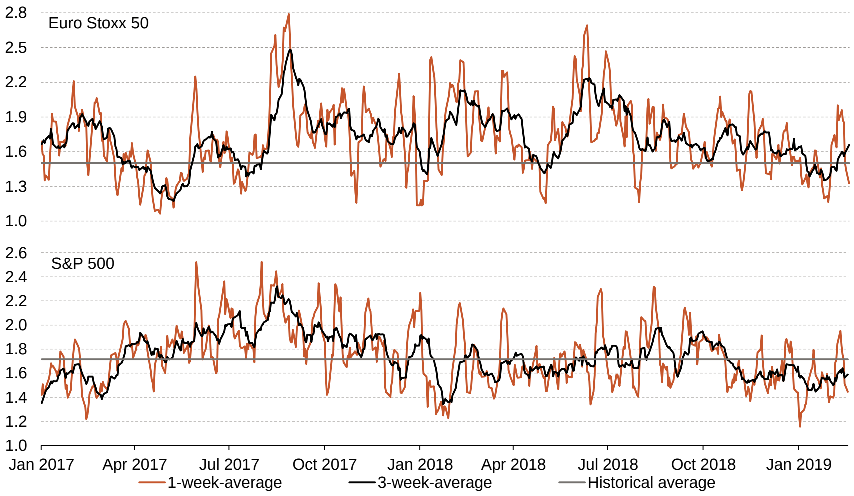
## Non-Commercial Positioning




- The longest shutdown in the history of the US means that the CFTC data has still not been fully updated. The positioning data shown here are correspondingly old and still as of 22/01/2019.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders Reports every Friday. A distinction is made between "non-commercial" and "commercial traders" positions. Non-commercial traders enter into purely speculative positions. Commercial traders hedge underlying transactions with futures or options. The chart shows the historical, normalized distribution in standard deviations and focuses on the net future position (long positions minus short positions) of non-commercial traders, thus indicating how speculative investors have positioned themselves.
*Duration weighted average bond position.
Source: Bloomberg, CFTC, Time period: 23/01/2009 - 22/01/2019

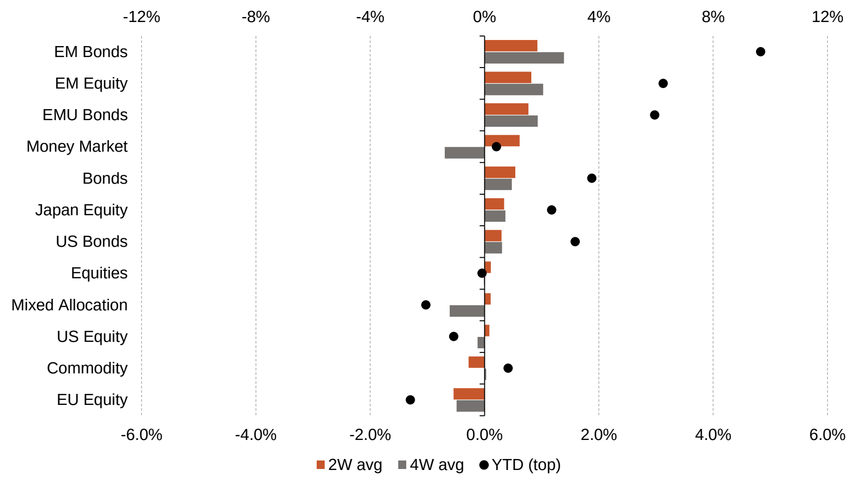
## Put-Call Ratio




- The options market does not currently show a clear trend. While the hedging ratios in the US and Europe were increased at the beginning of February, the put-call ratio recently declined again in the direction of its historical average. Some option market participants seem to have misjudged the recovery rally.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 15/02/2019

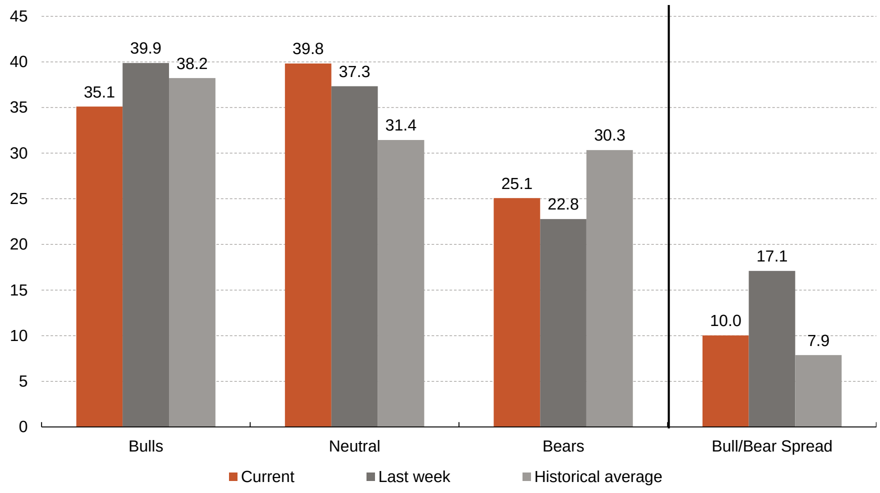
## ETF Flows




- Emerging market investments continue to be in strongest demand. Investors are currently showing a clear preference for carry bonds, supported by the Fed's more cautious stance towards further rate hikes.
- European equities, on the other hand, remain unpopular with international investors. Weak economic data and a multitude of political risks are weighing on the mood.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 15/02/2019

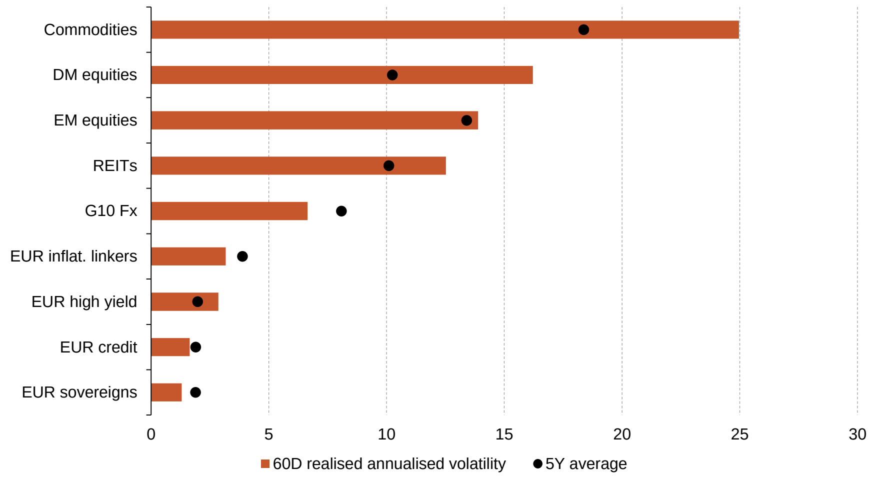
## AAII Sentiment Survey (Bulls vs Bears)




- Sentiment among US investors has improved over a 2-week period, despite a fall in bulls of nearly 5% last week.
- At around 40%, most investors are neutral. But at least one in four is a bear.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 15/02/19

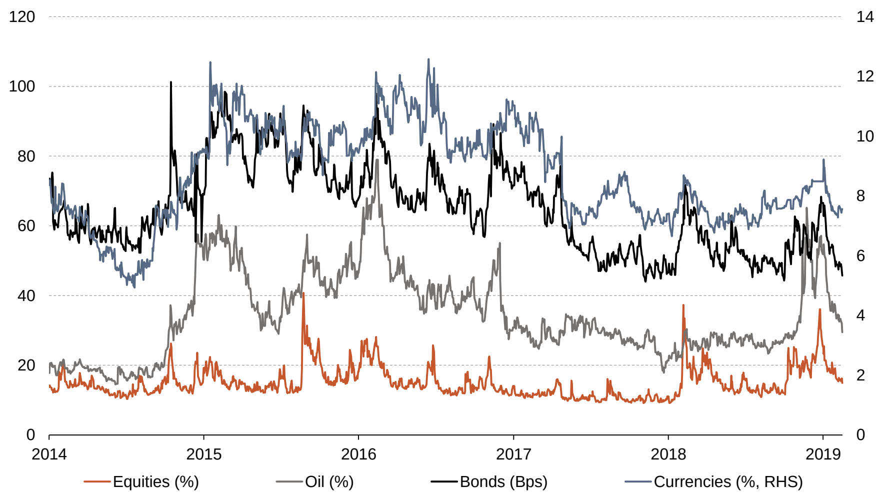
## Realised Volatilities




- With the exception of the decline in raw materials, little has changed recently in the 60-day volatilities. Compared to its own history, the volatility of stocks in industrialised countries and REITs is high.
- Only for the G-10 currencies, the EUR inflation linkers and EUR corporate and government bonds have volatilities below the 5-year average.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 15/02/2014 – 15/02/2019

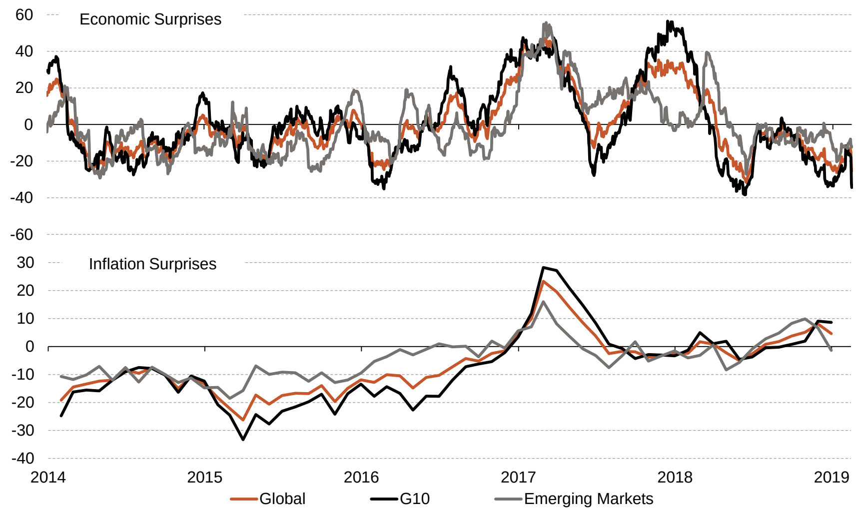
## Implied Volatilities




- The implied volatility has fallen significantly for all asset classes and is now predominantly at historically normal levels.
- The current volatility of government bonds is also relatively low. This is in line with the consistently low yields on European government bonds.

The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.
Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index
Source: Bloomberg, Time period: 01/01/2014 -15/02/2019

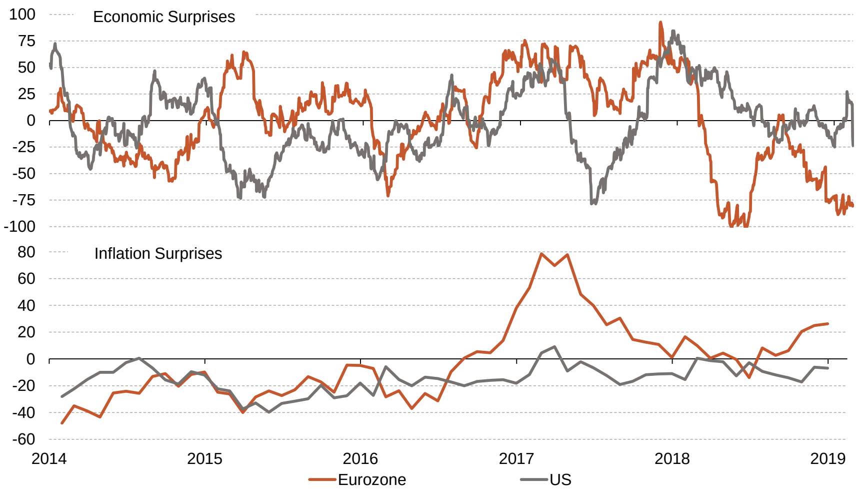
## Global




- Globally, there have been fewer economic disappointments recently than at the turn of the year. The main drivers were emerging markets, while Europe was disappointing.
- Among emerging markets, India in particular surprised with an increase in industrial production and China with a year-on-year increase in exports (+9.1%).
- Inflation has recently been, surprisingly, lower. In China, for example, January inflation was 1.7% (1.9%).

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 15/02/2019

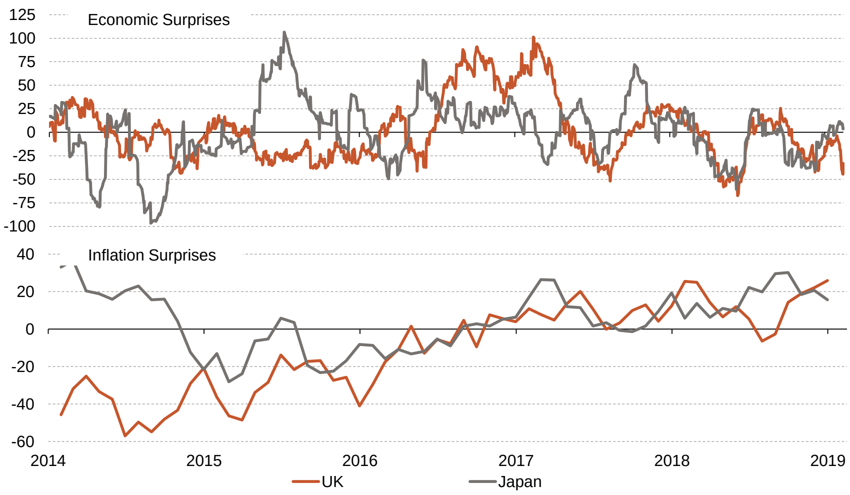
## Eurozone and US




- The economic divergence between the eurozone and the US has slightly narrowed.
- With falling industrial production and 0% economic growth in Q4/2018 (QoQ), Germany just avoided a technical recession.
- The US economy in aggregate surprised to the downside, too. Labour market data and the mood in industry have recently surprised negatively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 15/02/2019

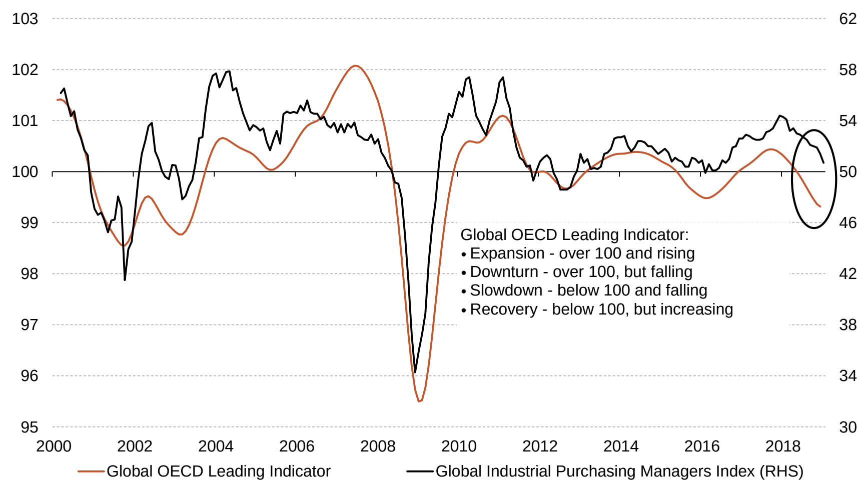
## UK and Japan




- The UK economy has recently been very disappointing. Growth figures were weaker than expected and industrial production fell in December (MoM).
- In Japan, the economy grew in Q4 by 1.4% in annualised terms and exports continued to rise.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. The indices use a time decay function to replicate the markets limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2014 - 15/02/2019

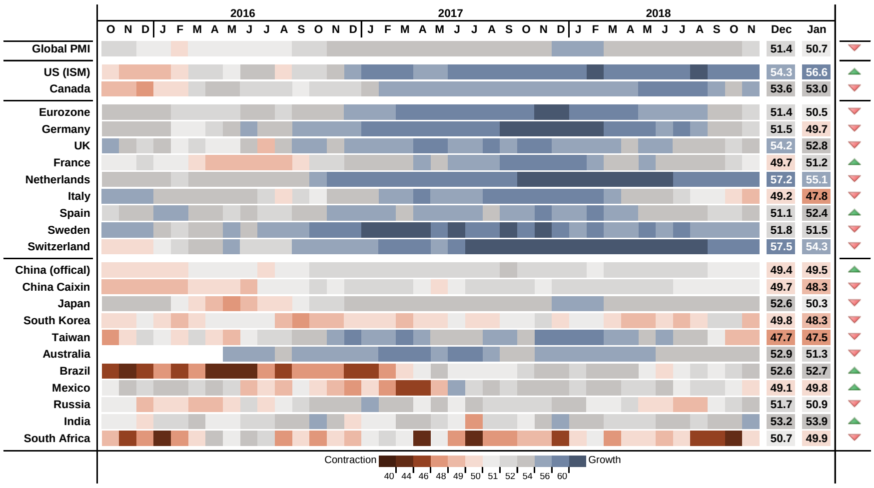
## OECD Leading Indicator and Global Purchasing Managers Index




- With 99.3 points, the OECD leading indicator has reached its lowest level since 2009. The fears of a recession in the market will therefore remain for the time being.
- At 50.7 points, January's global purchasing managers' index for the industry is still above the important 50 point growth threshold.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/2000 - 31/01/2019

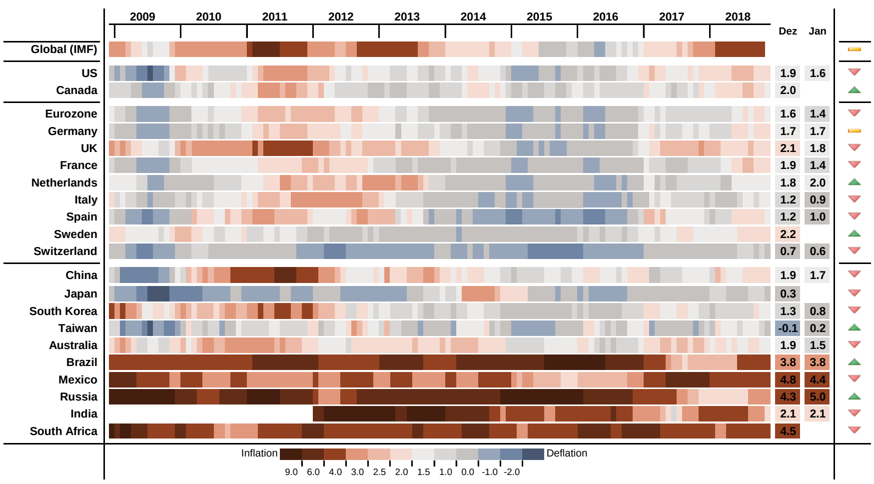
## Manufacturing Purchasing Managers Index (Manufacturing PMI)




- In January, industrial sentiment in Germany fell below the important level of 50 points.
- According to the official PMI, industrial sentiment in China has improved slightly. However, the unofficial PMI has fallen and is showing a more sobering picture.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 30/09/2015 - 31/01/2019

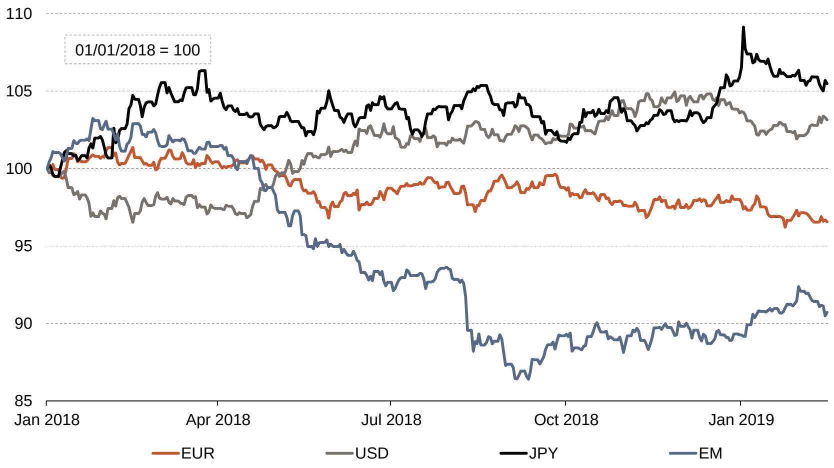
## Headline Inflation




- In the US, inflation fell to 1.6% in January. Falling gas prices in particular have kept inflation under control.
- Inflation is also on the retreat in Europe. It fell to 1.8% in the UK, 0.9% in Italy and 0.6% in Switzerland.
- In China, falling inflation does not stand in the way of further economic stimulus.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year.
Source: Bloomberg, Time period: 31/10/2008 - 31/01/2019

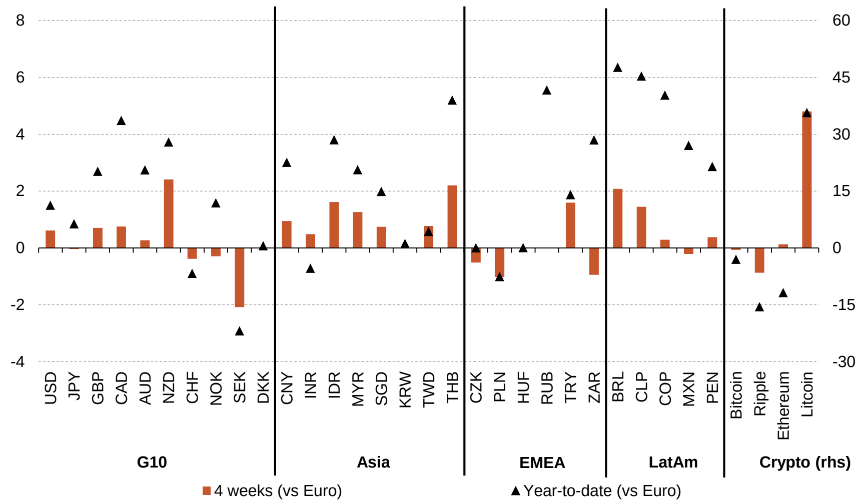
## Trade-Weighted Currency Development




- In recent weeks, the US dollar has appreciated on a trade-weighted basis. The Fed's expected interest-rate pause did not weigh on the US dollar. On the contrary, emerging market currencies depreciated.
- The euro has recently stayed stable, but it is still suffering from political risks such as Italy, Brexit and the new elections in Spain, as well as weak economic data.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2018 - 15/02/2019

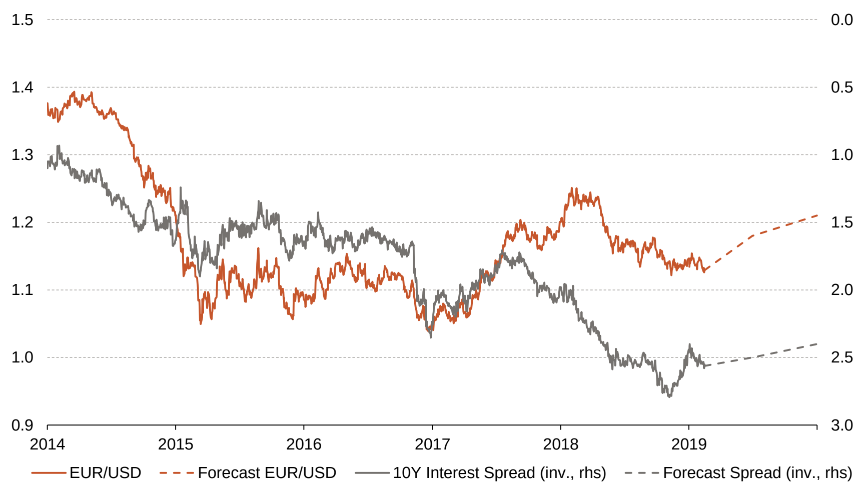
## Currency Moves vs Euro




- Over the past 4 weeks, the G10 currencies had mixed returns against the euro. However, the weakness of the Swedish krona and the strength of the New Zealand dollar are striking.
- Asian emerging markets have consistently appreciated against the euro, and Latin American currencies have also strengthened.
- For crypto currencies, Litcoin stood out positively.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 15/02/2019

## EUR/USD exchange rate and interest rate differential




- The EUR/USD exchange rate fell temporarily below 1.13, mainly because of the euro's weakness.
- The interest rate differential between 10-year Bunds and US Treasuries rose above 2.5 percentage points. This is due in particular to the decline in yields on German government bonds. In the course of the year, our economists expect a slight decline in the yield differential. The euro should then appreciate somewhat against the US dollar.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2014 - 31/12/2019

## European Sector & Style Performance

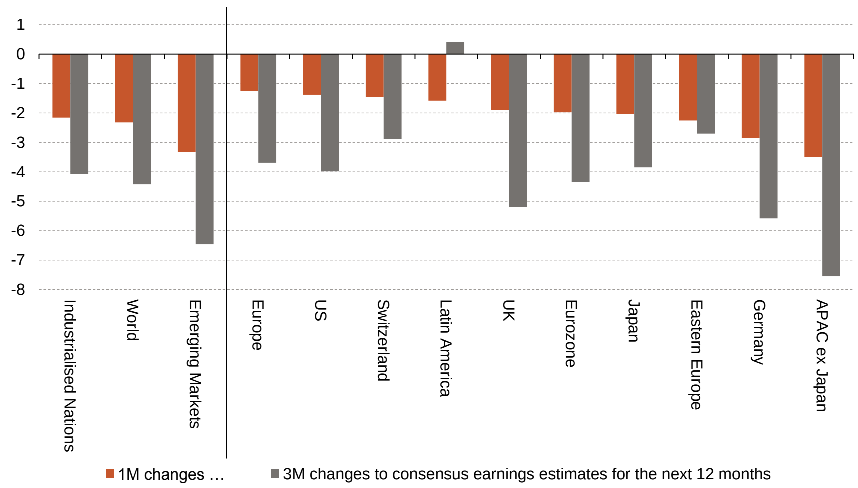
| | Seit 4 Wochen & Jahresanfang (YTD): 4W (18.01.19 - 15.02.19) | YTD (31.12.18 - 15.02.19) | 12-Monats-Zeiträume der letzten 5 Jahre: 15.02.18 15.02.19 | 15.02.17 15.02.18 | 15.02.16 15.02.17 | 15.02.15 15.02.16 | 14.02.14 15.02.15 |
|---|---|---|---|---|---|---|---|
| Basiskonsumgüter | 6.1 | 9.8 | 8.0 | -1.6 | 6.3 | 3.8 | 25.9 |
| Informationstechnologie | 5.9 | 12.8 | 5.9 | 13.2 | 26.6 | -8.0 | 21.0 |
| Industrie | 5.3 | 11.9 | -0.5 | 7.4 | 28.3 | -11.7 | 11.3 |
| Gesundheit | 4.9 | 8.7 | 14.5 | -6.4 | 8.0 | -9.4 | 25.3 |
| Growth | 4.8 | 10.2 | 3.8 | 4.5 | 13.5 | -6.8 | 18.5 |
| Energie | 4.4 | 10.4 | 16.7 | 3.3 | 35.7 | -22.7 | 3.5 |
| Grundstoffe | 4.2 | 12.0 | -2.8 | 10.1 | 53.4 | -28.0 | 10.1 |
| Zyklische Konsumgüter | 3.5 | 10.4 | -5.5 | 7.6 | 15.4 | -13.2 | 20.1 |
| Versorger | 2.7 | 8.3 | 21.8 | -0.3 | 1.6 | -9.0 | 15.6 |
| Value | 2.4 | 8.5 | -1.5 | 3.2 | 25.5 | -19.8 | 13.4 |
| Finanzen | 0.4 | 8.1 | -13.0 | 8.3 | 29.0 | -20.8 | 10.0 |
| Telekommunikation | -2.4 | -0.9 | -1.5 | -5.7 | -5.4 | -9.5 | 25.0 |

Zyklische Konsumgüter: MSCI Europe Consumer Discretionary NR; Basiskonsumgüter: MSCI Europe Cons. Staples NR; Energie: MSCI Europe Energy NR; Finanzen: MSCI Europe Financials NR; Gesundheit: MSCI Europe Health Care NR; Industrie: MSCI Europe Industrials NR; IT: MSCI Europe Inform. Techn. NR; Grundstoffe: MSCI Europe Materials NR; Telekommunikation: MSCI Europe Telecommunication Services NR; Versorger: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- After tech companies were among the biggest losers in December, they have recently made an amazing comeback. In the last four weeks alone, the European tech sector has grown by 5.9%.
- Contrarily, European value stocks continue to have a difficult time. Lower interest rate prospects are depressing the financial sector, for example.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Bloomberg, Time period: 14/02/2014 – 15/02/2019

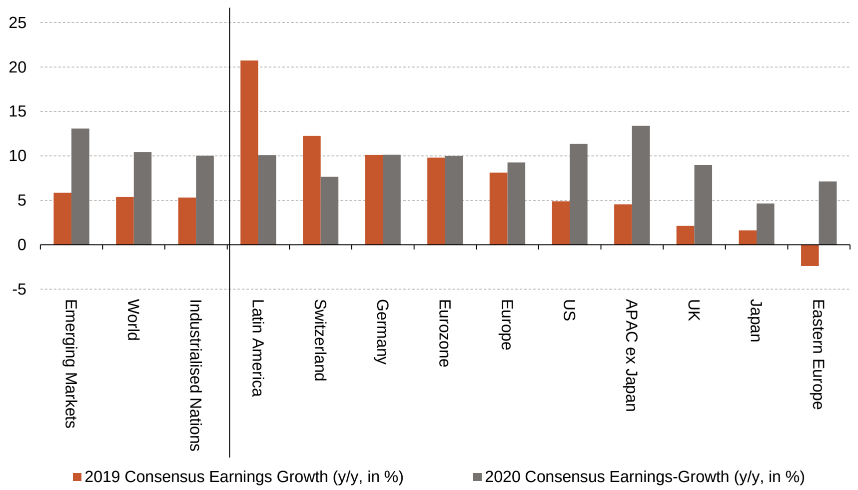
## Changes in Consensus Earnings Estimates




- Economic data continues to disappoint and negative earnings revisions continue accordingly. Asian emerging economies and Germany in particular have seen further downward revisions in consensus earnings estimates in recent weeks. A stabilisation of earnings estimates is still to come.
- Overall, the negative revisions of earnings are higher in emerging markets than in industrial nations.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 15/02/2019

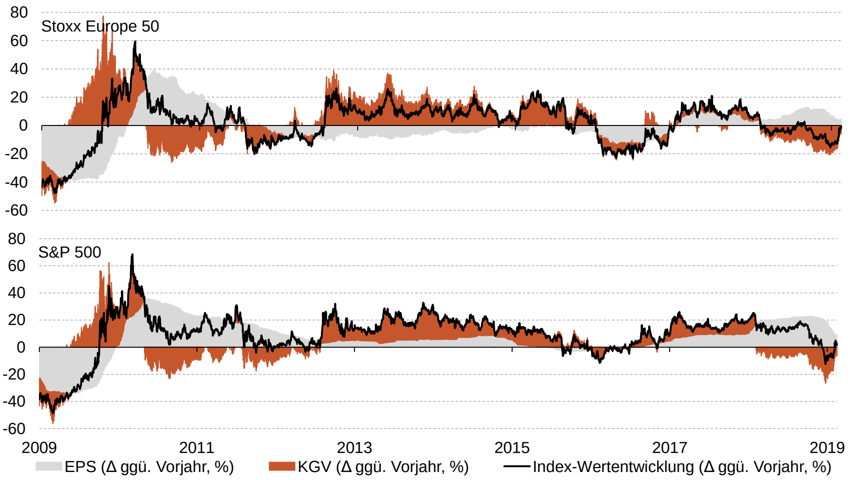
## Earnings Growth




- Due to the recent downward revisions, earnings estimates for 2019 now look much more realistic. Growth of 5% is expected for the US and 1.6% for Japan.
- For the eurozone and Germany, however, profit expectations of around 10% for 2019 continue to appear very ambitious. Further downward revisions will probably follow.

Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 15/02/2019

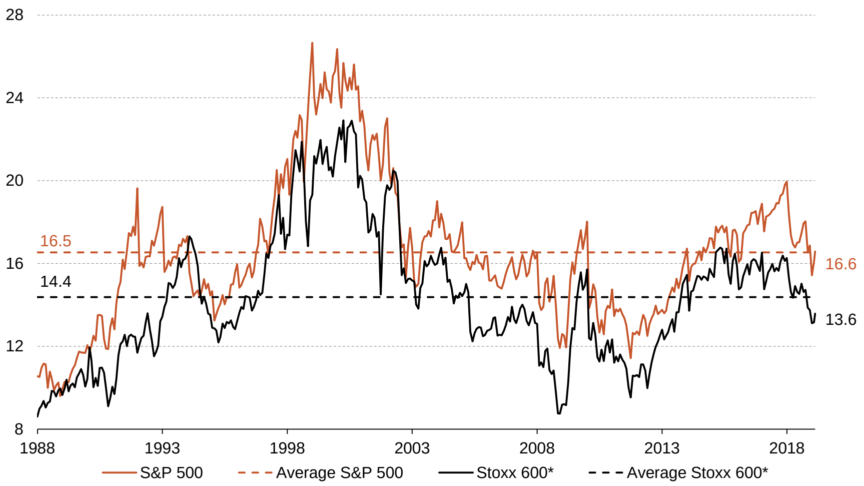
## Contribution Analysis




- The recovery rally in European and US equities is due to a P/E expansion. While earnings estimates fell sharply on both sides of the Atlantic, share prices rose markedly. This resulted in an increase in valuations.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2009 – 15/02/2019

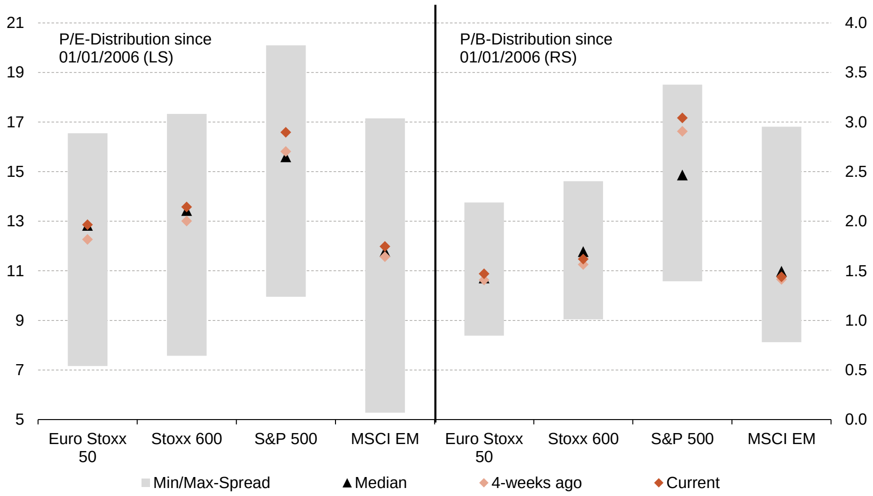
## Price-Earnings Ratio (P/E Ratio) of European and US Equities




- The P/E ratio for European and US equities recently increased. However, in historical context, European equities in particular are still valued relatively favorably with a P/E ratio of 13.6.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, Time period: 31/12/1987 – 15/02/2019

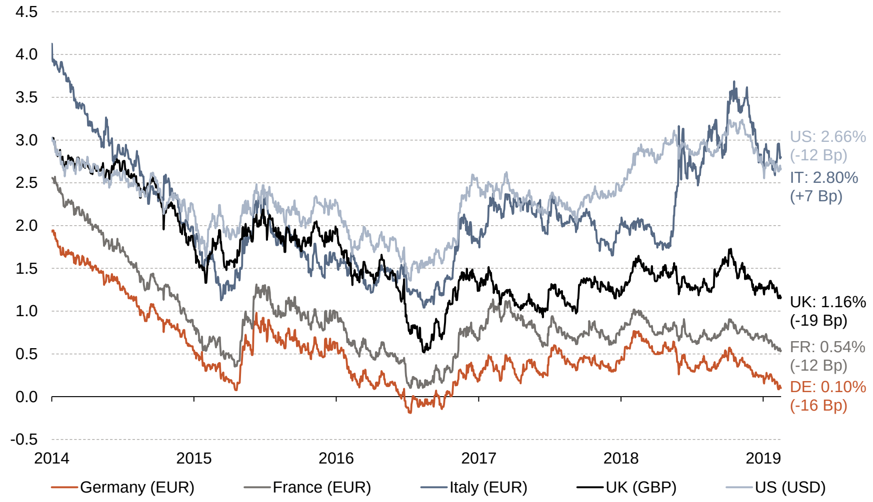
## Historical Distribution: Price/Earnings and Price/Book Ratio




- Valuations have recently risen across all regions. US equities in particular have become more expensive. The price/book ratio for the S&P 500 has now climbed above 3 again and is therefore far from its median.
- Despite a strong performance since the beginning of the year, emerging market equities continue to appear attractive, both in relative and absolute terms

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 – 15/02/2019

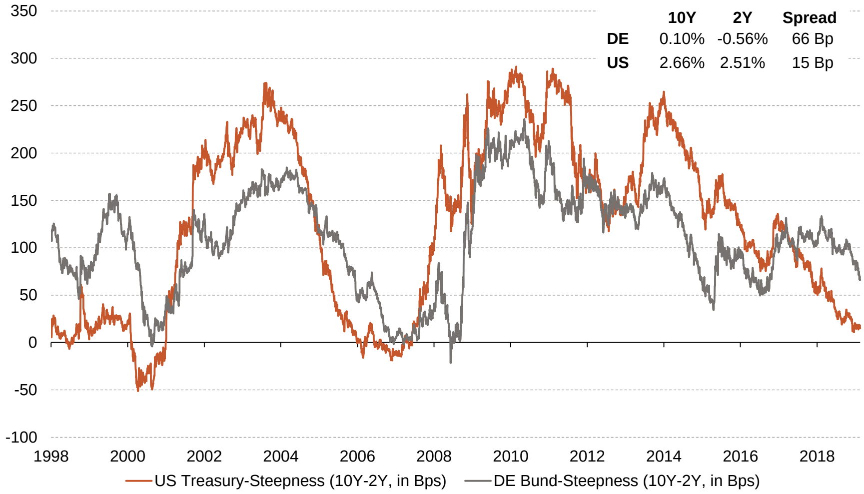
## 10-Year Government Bond Yields




- In the last two weeks there has been little movement in treasury yields. Due to unresolved market concerns, it remains below 2.7%.
- Following the IMF's criticism of Italy and the EU's lowered growth forecast for Italy to 0.2% in 2019, yields on Italian government bonds temporarily rose to around 2.9%.
- The yield of German Bunds is now at 10 basis points and has reached a new 2-year low.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2014 - 15/02/2019

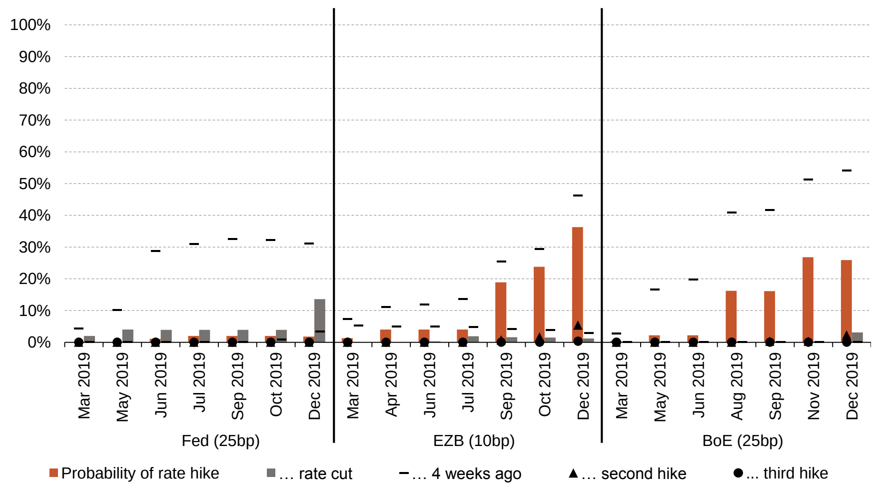
## Yield curve steepness (10Y - 2Y)




- The steepness of the German yield curve has fallen below 70 basis points. While the negative yields on 2-year government bonds hardly moved, the yields on 10-year bonds fell to 10 basis points.
- There has been hardly any movement in the steepness of the US yield curve in the last two weeks. It remains at 15 bp.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 15/02/2019

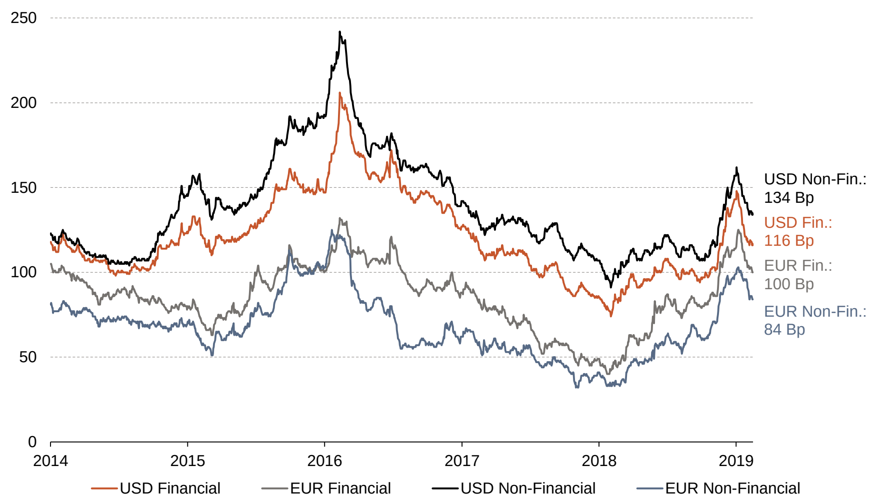
## Implicit Probabilities for Changes in Key Interest Rates




- The market's expectation of an increase in the ECB deposit rate in 2019 has now risen to c. 40%. An increase would especially help banks.
- The market is now no longer pricing in a rate hike by the Fed in 2019. A rate cut is priced at around 15%. The Fed itself currently sees no need to raise rates further, as the risks to the US economy have recently increased.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 18/01/2018 - 15/02/2019

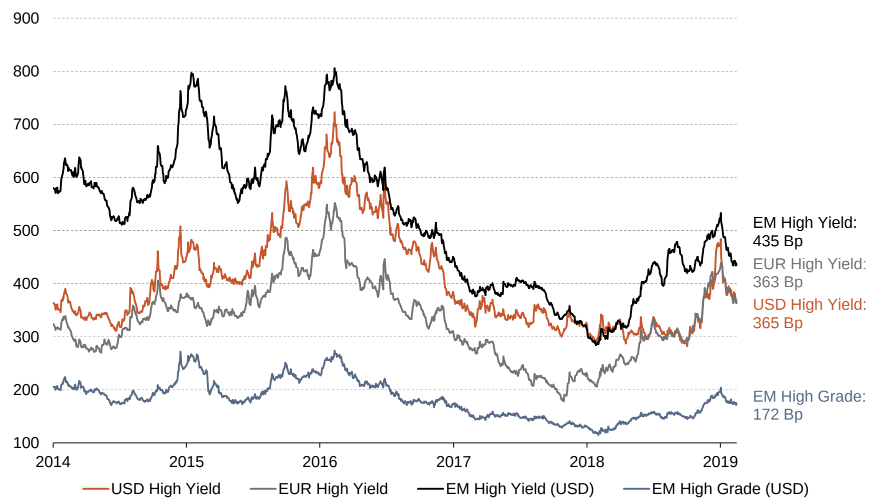
## Credit Spreads Financial and Non-Financial Bonds




- Spreads on USD and EUR corporate bonds have hardly moved in the last two weeks.
- Only EUR non-financial bonds saw a noticeable spread narrowing by 5 basis points. The energy, capital goods and real estate sectors in particular showed declining spreads. The real estate sector benefits in particular from the cautious central banks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 15/02/2019

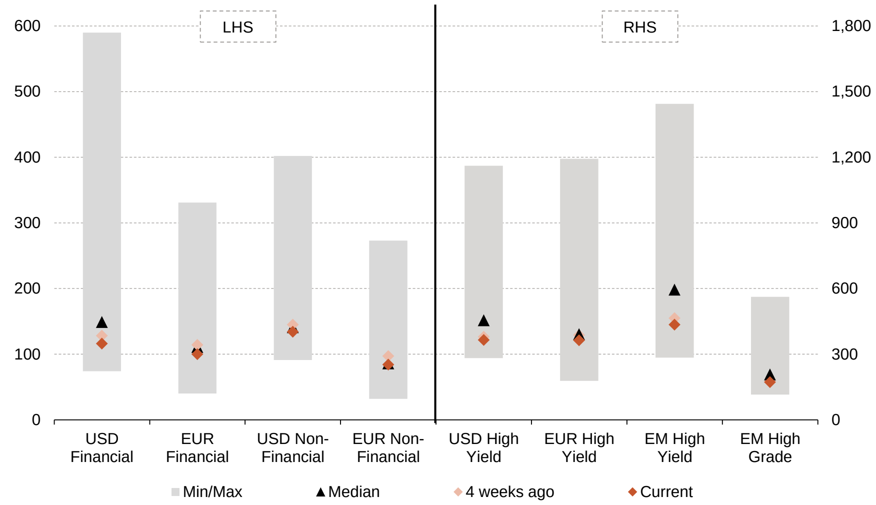
## Credit Spreads High Yield and Emerging Markets Bonds




- Spreads on high-yield bonds have fallen further in the last two weeks. The spread narrowing was 23 bp for USD High Yield, 15 bp for EM-High Yield and 15 bp for EUR High Yield.
- For USD High Yield, spread narrowing was particularly pronounced in the capital goods industry. The transport industry experienced a slight expansion.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2014 - 15/02/2019

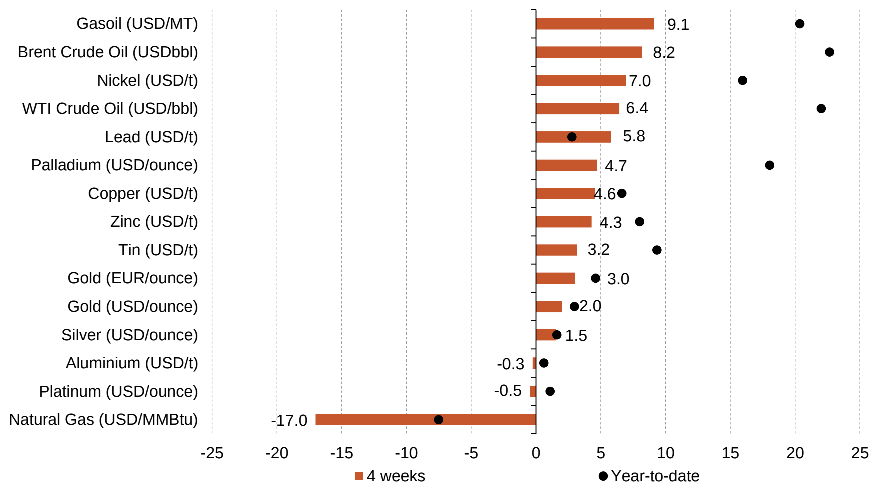
## Historical Distribution of Credit Spreads (in bp)




- The spread on USD financial bonds, USD and emerging market high-yield bonds is now well below the 10-year median again.
- EM High Grade is characterised by its stability. Spreads remained close to the historical median and its value four weeks ago.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 15/02/2009 - 15/02/2019

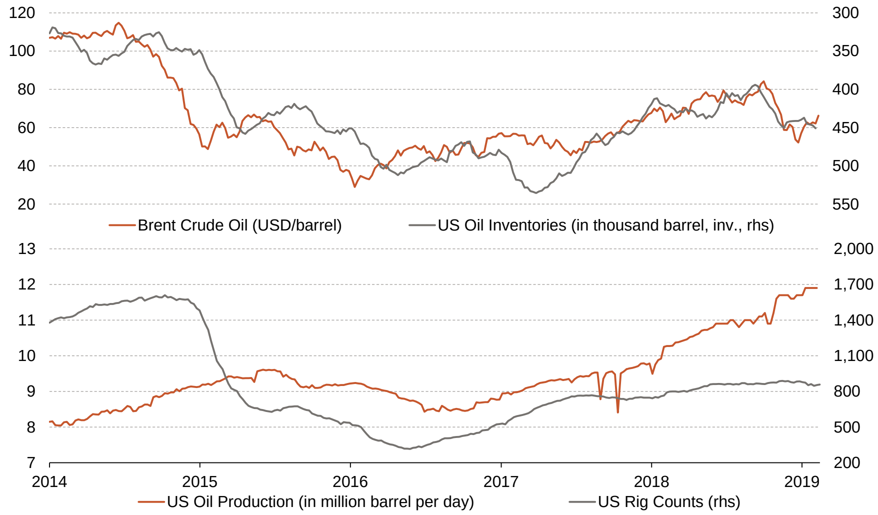
## Commodities Performance




- Over the past four weeks, most commodities have appreciated in value. Only aluminium and platinum fell slightly and natural gas lost significantly due to the warmer winter in the US.
- The winner's list is led by crude oil, palladium and nickel. Palladium is benefiting from the expected increase of a supply deficit. Nickel gained noticeably because after the dam accident in Brazil the temporary closure of mines and lower production were priced in.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 – 15/02/2019

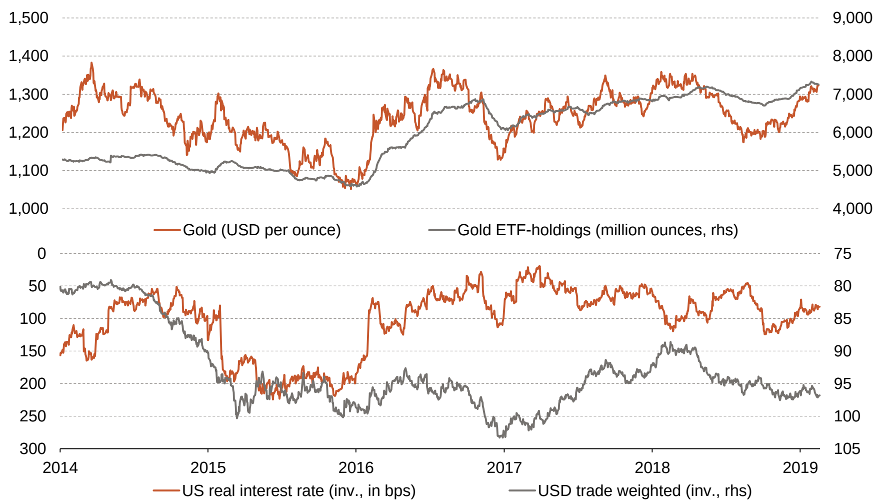
## Crude Oil




- Crude oil (Brent) has left its sideways band upwards and is now trading at 66 US dollars per barrel.
- The cuts in production by the OPEC+ countries have brought the oil market into balance. US inventories have risen only slightly.
- As Canada could lift its production cuts and US production continues to rise, a further increase in oil prices is likely to be limited. However, the sanctions against Venezuela and Iran dominate the headlines.

Higher oil production and higher inventories tend to depress oil prices and vice versa. An increase in active oil rigs indicates a future increase in oil production.
Source: Bloomberg, Time period: 01/01/2014 – 15/02/2019

## Gold




- The price of gold remains above the psychologically important mark of 1,300 US dollars per ounce.
- Demand from ETFs and central banks continue to support the gold price. This also compensated for the headwind from an unchanged strong US dollar.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2014 – 15/02/2019

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